**Actuarial Office**
P.O. Box 1494
Sacramento, CA 95814
Telecommunications Device for the Deaf - (916) 795-3240
(888) CalPERS (225-7377) FAX (916) 795-3005

June 20, 2006

**AGENDA ITEM 7**

**TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE**

**I. SUBJECT:** EFI's Parallel Valuation and Certification of the Volunteer Firefighters' Length of Service Award System (VFLSAS) as of June 30, 2004

**II. PROGRAM:** Actuarial Office

**III. RECOMMENDATION:**

It is recommended that the Committee accept and recommend to the full Board the acceptance of EFI's report on the June 30, 2004 parallel valuation and certification of the actuarial valuation of the Volunteer Firefighters' Length of Service Award System in completion of Task 3 of Contract 2003-3236. A copy of the report is included in Attachment 1.

**IV. ANALYSIS:**

Results produced by EFI's independent parallel valuation of the Volunteer Firefighters' Length of Service Award System was "in very close agreement" with results from the CalPERS VFLSAS valuation. Liabilities and costs are all within 5% for all benefits and within 2.5% in total. EFI has certified that the liabilities are reasonably correct and were "computed in accordance with generally accepted actuarial principles."

EFI commented on the method used to smooth Plan assets for funding determinations. They stated that, compared to the prior methodology, current methods produce an actuarial value of assets that is more likely to reach, and stay at, the outer boundaries. EFI has discussed the issue with the Actuarial Office and the potential asset fluctuation at the boundaries of the corridor is considered to be a worthwhile tradeoff for the additional smoothing of employer costs.

Several other issues were raised in EFI's technical analysis:

- Receivables accounted for about 15% of assets. Since these are non-interest bearing, EFI recommends that consideration be given to adjusting the assumed investment return. Based on conversations with the VFLSAS administrative group, the amount of receivables is expected to decrease. If this is the case, an adjustment to the assumed investment return would not be required. Staff will continue to monitor the amount of receivables in the future.

- EFI questioned the assumption that inactive participants will remain inactive. Although an inactive member may return to active service, such a return rarely occurs. This is based on information provided by representatives of the fire entities, as well as an analysis of the data. Accordingly, beginning with the 6/30/2005 valuation, the wording in Exhibit 7 has been changed to “members may have frequent breaks in their service.”

- The Unit Credit cost method will produce increasing costs if the group‘s age is increasing. EFI noted that the average age increased between 6/30/2003 and 6/30/2004 and recommended consideration of a different cost method if a trend of increasing age emerges. Staff will monitor this. However, the group’s age in the 6/30/2005 valuation decreased slightly, so a change in funding method does not appear to be merited at this time.

- EFI also noted that recent statements from the Governmental Accounting Standards Board (GASB) concerning post-employment benefits (GASB Statements 43 and 45) raise some concern that the supplemental benefit could be required to be valued, at least for accounting purposes. Since volunteers are not employees, it is not clear that the statements would apply to this plan. Staff will, however, continue to monitor this issue and will make appropriate changes as required in the future.

## V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial Office.

## VI. RESULTS/COSTS:

There are no costs associated with this item other than the payment of EFI’s fee under contract 2003-3236.

Barbara J. Ware, Senior Pension Actuary
Actuarial Office

Ronald L. Seeling, Chief Actuary
Actuarial & Employer Services Branch